

## Message Text

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ACTION EA-12

INFO OCT-01 NEA-10 ISO-00 IO-13 AID-05 CIAE-00 COME-00  
EB-08 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-07 CEA-01 L-03 H-01 PA-01 /119 W  
-----009125 140225Z /15

R 130510Z JUL 78  
FM AMEMBASSY KATHMANDU  
TO SECSTATE WASHDC 2574  
INFO AMEMBASSY SUVA  
AMEMBASSY TOKYO  
AMEMBASSY WELLINGTON  
AMEMBASSY CANBERRA  
AMEMBASSY BANGKOK  
AMEMBASSY SEOUL  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY SINGAPORE  
AMEMBASSY VIENTIANE  
AMEMBASSY MANILA  
AMEMBASSY PORT MORESBY  
AMEMBASSY TAIPEI  
AMEMBASSY DACCA  
AMEMBASSY ISLAMABAD  
AMEMBASSY KABUL  
AMEMBASSY COLOMBO  
AMEMBASSY NEW DELHI  
AMEMBASSY JAKARTA  
AMEMBASSY RANGOON  
AMCONSUL HONG KONG

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MANILA ALSO FOR USADB

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E.O. 11652: N/A  
TAGS: EGEN, ETRD, BEXP, ADB, NP  
SUBJECT: US PROCUREMENT FROM ASIAN DEVELOPMENT BANK (ADB)  
  
REF: STATE 155300

1. SUMMARY. WE BELIEVE MANY OF FACTORS LIMITING US SHARE OF

ADB PROCUREMENT IN NEPAL ARE INHERENT IN NATURE OF BANK'S OPERATIONS HERE AND IN OTHER CONDITIONS PECULIAR TO THIS COUNTRY. WE DO CONCUR, HOWEVER, THAT EARLIER INFORMATION ON PROJECTS, EARLY FOCUS BY POSTS ON COMMERCIAL OPPORTUNITIES IN THESE PROJECTS, AND CASE STUDIES OF COMPLETED PROJECTS SHOULD HELP. WE ALSO BELIEVE THAT BANK SHOULD INSIST ON STRICTER ADHERENCE TO QUALIFICATION/TENDERING PROCEDURES. END SUMMARY.

2. US RECORD IN GETTING ITS SHARE OF PROCUREMENT UNDER ADB FINANCED PROJECTS IN NEPAL IS WORSE THAN OVERALL AVERAGE CITED REFTEL. AS FAR AS WE ARE AWARE ONLY ONE CONSULTANCY CONTRACT--AND THAT SOME SIX YEARS AGO--HAS BEEN AWARDED TO US FIRM, WILE CONTRACTING AND EQUIPMENT SUPPLY AWARDS HAVE BEEN ZERO. THERE IS POSSIBILITY THAT THIS PICTURE WILL CHANGE WITH AWARD LATER THIS SUMMER OF ENGINEERING CONTRACT ON HETAUDA CEMENT PLANT PROJECT. ONE OF FIVE COMPETING FIRMS IS DILLINGHAM CORP. OF AUSTRALIA, WHOLLY OWNED SUBSIDIARY OF DILLINGHAM, HAWAII. BUT WITH TWO INDIAN FIRMS AND ONE JAPANESE ALSO IN FINAL FIVE, COMPETITION IS STIFF.

3. WE SEE SEVERAL MAJOR BARRIERS IN WAY OF US FIRMS GETTING LARGER SLICE OF ACTION.

A) MOST OF ADB PROJECTS HERE HAVE BEEN SMALL. HETAUDA CEMENT PLANT (AT \$39 MILLION) IS FIRST TO START OUT AT LIMITED OFFICIAL USE

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OVER \$10 MILLION, AND THERE HAVE BEEN ONLY THREE IN THE \$8-10 MILLION RANGE. THE MAJORITY HAVE BEEN VERY SMALL EVEN IN ADB TERMS, AND THUS ARE NOT ATTRACTIVE TO US FIRMS KNOWING ALMOST NOTHING OF THIS REMOTE KINGDOM.

B) IN THE CASE OF "BIGGER" ADB PROJECTS HERE--I.E. A ROAD PROJECT AND ANOTHER TO IMPROVE INTERNATIONAL AIRPORT, BOTH INITIALLY ESTIMATED AT \$10 MILLION--FUNDING WAS FOR CIVIL ENGINEERING/CONSTRUCTION, NOT EQUIPMENT. AS REFTEL NOTED, AND OTHER POSTS HAVE AGREED, THERE IS NO WAY US FIRMS ARE GOING TO COMPETE IN THIS AREA ON SUCH RELATIVELY ROUTINE CONSTRUCTION WORK--AS FAR AS WE KNOW NONE HAVE TRIED. SAME POINT APPLIES EVEN MORE SO ON SOME OF SMALLER PROJECTS INVOLVING IRRIGATION WORKS, ETC.--THERE IS NO SCOPE FOR US FIRMS IN SUCH EFFORTS, WHICH ARE BOTH SMALL AND UNSOPHISTICATED.

C) EVEN WHEN PROJECT COMES ALONG SUCH AS HETAUDA CEMENT, INVOLVING BOTH REASONABLE SIZE AND DEGREE OF SOPHISTICATED TECHNOLOGY, FACT THAT ONE FINDS TWO INDIAN FIRMS ON LIST OF FINAL FIVE IS ILLUSTRATIVE OF ANOTHER MAJOR PROBLEM. AS EMBASSY DELHI HAS OBSERVED, INDIAN FIRMS HAVE THE CAPACITY TO COMPETE IN WIDE VARIETY OF FIELDS AND WITH SOPHISTICATED TECHNOLOGY. AND WHEN,

IN THE CASE OF NEPAL, INE ADDS ADVANTAGES OF GEOGRAPHY,  
KNOWLEDGE OF AND EXPERIENCE IN THE MARKET, PERSONAL CONNECTIONS,  
ETC., INDIAN COMPETITION BECOMES FORMIDABLE INDEED.

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D) ISSUE OF LACK OF INTEREST ON PART OF US FIRMS, WHICH  
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IS CLEAR PROBLEM FOR OTHER ADDRESSES, IS DOUBLED IN SPADES FOR KATHMANDU. OTHER POSTS SPEAK OF DEALING WITH REPRESENTATIVES OF US FIRMS--WE HAVE ALMOST NONE TO DEAL WITH. AS FOR TRAVELERS FROM OUTSIDE IN PURSUIT OF NEPALESE BUSINESS, SOME BASED IN THE REGION DO FOLLOW DEVELOPMENTS HERE AND MAKE PERIODIC VISITS, BUT EVEN THEY USUALLY HAVE OTHER OPPORTUNITIES OF GREATER PRIORITY. IN SHORT, WE ARE AT END OF COMMERCIAL ROAD. IN GENERAL ONLY THOSE WELL VERSED IN EXPORT BUSINESS IN THIS AREA ARE LIKELY TO FOCUS ON NEPAL, AND EVEN THEY CAN BE EASILY DIVERTED. WE DON'T SEE THIS CHANGING IN THE NEAR FUTURE.

4. ALL OF ABOVE HAVING BEEN SAID, THERE ARE SOME THINGS THAT MIGHT HELP US FIRMS IN NEPAL--AND OUR EFFORTS ON THEIR BEHALF--PARTICULARLY IF WE GET MORE PROJECTS OF THE SIZE AND TECHNOLOGICAL LEVELS OF HETAUDA CEMENT. A) WE DO HAVE SENSE THAT SOME OF OUR COMPETITORS ARE BETTER AND EARLIER INFORMED ABOUT ADB PROJECTS-- APPARENTLY BECAUSE THEY ARE PLUGGED IN BETTER TO ADB OPERATIONS IN MANILA. IF, AS SUGGESTED IN WARNE MEMO, PROBLEM IS ONE OF INSUFFICIENT STAFF TO DO THE JOB, THIS IS DEFICIENCY WHICH CAN BE CORRECTED. B) WE SUPPORT RANGOON'S SUGGESTION THAT COMMERCIAL POSSIBILITIES BE INCLUDED AS PART OF POST'S COMMENTS ON PROPOSED PROJECTS UP FOR NAC CONSIDERATION. AS NOTED BY OTHERS, HOWEVER, THIS WILL REQUIRE MORE LEAD TIME AND/OR EARLIER RECEIPT OF DOCUMENTS. C) WE ALSO ENDORSE PROPOSAL REFTEL THAT CASE STUDIES OF SELECTED COMPLETED PROJECTS BE CONDUCTED TO SEE WHY WE ARE LOSING OUT. AS INDICATED ABOVE, IMMEDIATE RELEVANCE OF SUCH STUDIES IN TERMS OF IMPROVED ACCESS TO ADB PROJECTS IN NEPAL MAY BE LIMITED, BUT LONG TERM LESSONS MIGHT BE LEARNED. LIMITED OFFICIAL USE

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D) FINALLY, WE URGE THAT EFFORTS BE MADE TO HAVE ADB INSIST ON STRICT TENDERING PROCEDURES. OUR EXPERIENCE WITH HETAUDA PROJECT MAY BE ATYPICAL BUT VARIETY OF MANEUVERS WHICH HAVE GONE ON OVER PAST YEAR ON THIS PROJECT HAVE SERVED, WE BELIEVE, TO DISINTEREST SEVERAL HIGHLY CAPABLE US FIRMS. FIRST PREQUALIFICATION DEADLINE WAS EXTENDED AFTER CLOSING DATE--AND NEW FIRMS WERE ALLOWED IN. THEN SO-CALLED SHORT LIST ENDED UP WITH FIFTEEN NAMES. AND FINALLY BID DEADLINE FOR THOSE FIFTEEN WAS AGAIN EXTENDED. WE ARE NOT SUGGESTING THAT ADB WAS DIRECTLY RESPONSIBLE OR OTHERWISE INVOLVED IN

ANY BACKROOM MANEUVERS. SOME OF DECISIONS MAY HAVE BEEN  
TAKEN WITH GOOD REASON; IN OTHER INSTANCES, INITIATIVE  
CLEARLY CAME FROM GON. BUT AT LEAST FROM OUR PERSPECTIVE  
ADB DID NOT TAKE FIRM STANCE IN OPPOSITION TO THESE  
MANEUVERS--EITHER IT ACQUIESCED OR SETTLED FOR  
COMPROMISE SOLUTIONS. END RESULT WAS THAT THREE US  
FIRMS WHICH MADE FINAL LIST OF 15 FAILED TO SUBMIT BIDS.  
OTHER FACTORS PLAYED A PART IN THEIR DECISIONS, BUT LOOSE  
HANDLING OF QUALIFICATION/TENDERING PROCESS UNDOUBTEDLY  
AND UNDERSTANDABLY CONTRIBUTED. WE CAN APPRECIATE  
PROBLEMS OF ENFORCING RULES IN COUNTRIES SUCH AS THIS,  
BUT, AS PROVIDER OF THE FUNDS, THE BANK'S LEVERAGE IS  
CONSIDERABLE. AND IN THE CASE OF ENFORCING STRICT  
TENDERING PROCEDURES WE THINK IT SHOULD BE EXERCISED.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PROCUREMENT, DEVELOPMENT BANKS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**TAGS:** EGEN, ETRD, BEXP, NP, US, ADB  
**To:** STATE  
**Type:** TE  
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